Memorandum

CLIMATE-RELATED FINANCIAL REPORTING

October 4, 2023

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **Climate-Related Financial Disclosure Framework** (Topic E)

INTRODUCTION

In June 2022, the Board agreed to analyze the Task Force for Climate-Related Financial Disclosures (TCFD) recommendations as a starting point for developing a federal climate-related financial disclosure framework. From December 2022 through June 2023, staff presented education sessions to familiarize the members with the TCFD model.

In June 2023, the International Sustainability Standards Board (ISSB) published the International Financial Reporting Standards (IFRS) S2, *Climate Related Disclosures* (IFRS S2 or S2). IFRS S2 includes the four core TCFD recommendations (governance, strategy, risk management, and metrics and targets) and the 11 recommended disclosures as its "core content."

At the August 2023 meeting staff presented an education session with panelists from the International Public Sector Accounting Standards Board (IPSASB). IPSASB has decided to move forward with developing standards for climate-related disclosures adapted from IFRS S2. Staff recommended the Board consider IFRS S2 as a model to begin developing the federal climate-related financial disclosure framework. Members agreed that IFRS S2 was a good starting point to develop the federal climate-related financial disclosures.

The attached staff analysis includes a recommended process for adapting IFRS S2 to ultimately develop the federal climate-related financial disclosure framework, as well as a proposed project plan.

REQUEST FOR FEEDBACK BY OCTOBER 12, 2023

Prior to the Board's October meeting, please review the attached staff analysis and respond to the ensuing questions by **October 12, 2023**. Please submit responses to Robin Gilliam at gilliamr@fasab.gov with a cc to Monica Valentine at valentinem@fasab.gov.

NEXT STEPS

Staff will present analysis and recommendations for developing the climate-related financial disclosure framework.

ATTACHMENTS

1. Staff Analysis
2. IFRS S2 - Sustainability Disclosure Standard: Climate-related Disclosures
3. Member Comment Form

Background

In August 2021, the Board approved the climate-related financial reporting project. The objective of this project is to provide guidance for reporting entities on reporting the financial impact of climate-related matters in financial statements. To achieve this objective the Board first published, on May 17, 2022, a non-authoritative staff paper, titled: *Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting*.

The staff paper introduction states that

> Federal financial reports are a vehicle by which federal entities and the federal government as a whole account for and explain to users the financial position and condition of the federal government. There is growing recognition that climate-related events and climate-related financial risks may affect the financial position and condition of the federal government. In those instances when climate-related events or climate-related financial risks affect the financial reports, preparers and users should be aware of the Statements of Federal Financial Accounting Standards (SFFASs) that may be relevant.
>
> This FASAB staff paper catalogs existing SFFASs that may be relevant to account for or report on the effects of climate-related events that have occurred and the potential effects of climate-related financial risks that may occur in the future. This staff paper is not an authoritative pronouncement and does not change or modify current FASAB guidance.

The Board then began research on how to develop a climate-related financial disclosure framework. At the June 2022 meeting, members agreed to analyze the Task Force for Climate-Related Financial Disclosures (TCFD) recommendations as a starting point for developing the federal framework. From December 2022 through June 2023, staff presented education sessions to help members learn more about TCFD and which organizations are adapting it.

In June 2023, the International Financial Reporting Standards (IFRS) published S2 – *Climate Related Disclosures* (IFRS S2 or S2) which included all of the TCFD recommendations.

In August 2023, the staff presented the Board with five factors as to why IFRS S2 was a good model to begin developing the federal climate-related financial disclosure framework (framework):

Factor 1. IFRS incorporated all TCFD requirements into its S2 standards. TCFD requirements are currently under adoption worldwide.

Factor 2. IFRS S2 includes authoritative defined terms such as climate resilience, climate-related physical risks, and climate-related risks and opportunities.

Factor 3. IFRS S2 requires reporting only on material climate-related risks and opportunities.

Factor 4. IFRS S2 addresses preparer burden by recognizing an organization's capacity for gathering necessary climate-related information.

Factor 5. The International Public Sector Accounting Standards Board (IPSASB) will develop public sector climate-related disclosures using the IFRS S2 model.

The Board agreed to use IFRS S2 to begin developing the framework, noting a number of concerns, such as IFRS S2 is an extensive list of requirements, and many of the requirements are non-financial and may not support FASAB's mission and concepts.

Staff analysis and recommendations

The objective for this meeting is (I) to review the recommended process for adapting IFRS S2 to the federal climate-related financial disclosure framework, and (II) to approve the proposed project plan.

I. Recommended Process

Staff recommends a review and analysis of the IFRS S2 (A) defined terms and (B) core content[1] to determine how to adapt each to develop the climate-related financial disclosure framework.

A. DEFINED TERMS

Staff recommends the following process to review and analyze the IFRS S2 defined terms. Review the IFRS S2 Appendix A[2]:

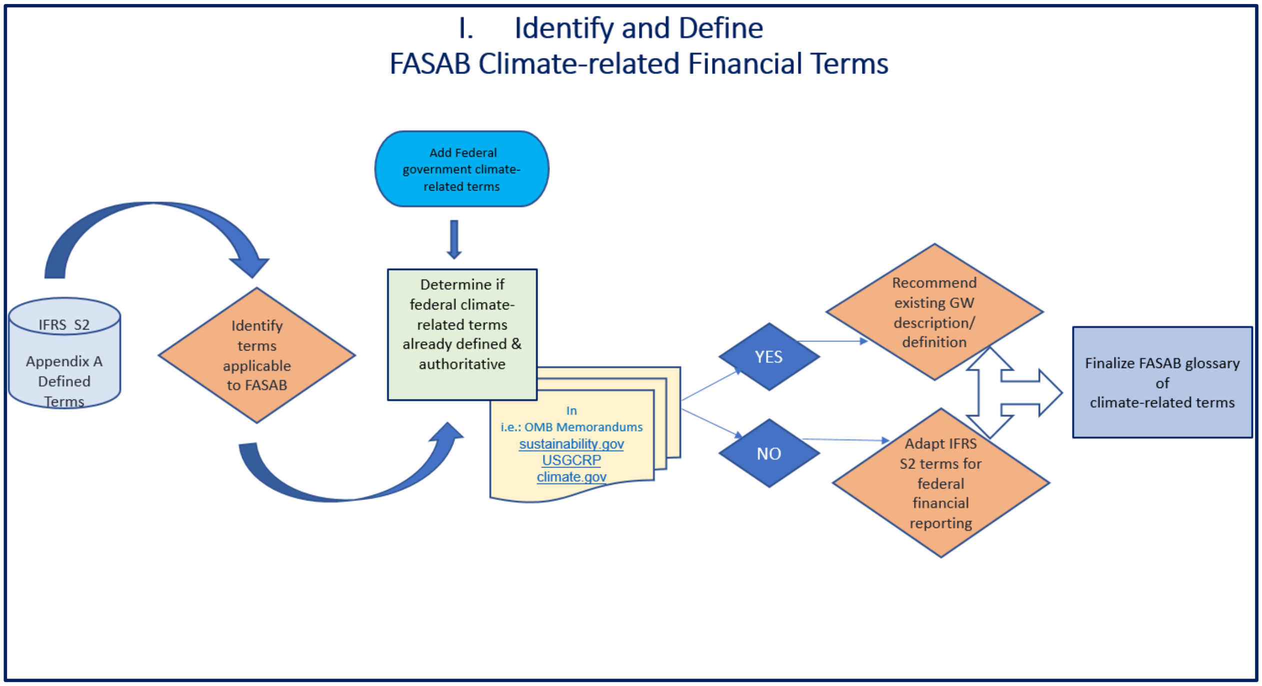
- to determine which IFRS S2 terms are applicable to federal financial reporting,
- to determine if any of the selected terms are currently being used in other federal sources[3], and
- to determine if any of the terms conflict with existing FASAB terms in the Handbook's consolidated glossary (Appendix E).

[1] IFRS S2 core content includes the four core TCFD elements governance, strategy, risk management, and metrics and targets.

[2] Appendix A (see Attachment 3, pgs. 19-23). Appendix A includes defined terms, such as climate resilience, climate-related physical risks, climate-related opportunities, climate-related transition risks, greenhouse gases (GHG).

[3] Such as federal documents, websites, or glossaries, such as in OMB memorandums, sustainability.gov, United States Global Change Research Program (USGCRP), or the interagency climate resilience toolbox hosted by NOAA to promote consistent use of climate-related terms across the federal government.

There are additional terms used by the federal government such as “hazard mitigation”, “climate hazards”, or “climate services” that are not included in the IFRS S2 defined terms but may be appropriate for the framework. These terms will be included in the analysis. Staff will coordinate with a working group to develop an analysis and recommended description for each identified term.



B. CORE CONTENT

Upon completion of identifying and defining climate-related terms, staff recommends that the Board review the IFRS S2 core content in relationship to the FASAB mission and the four reporting objectives outlined in SFFAC 1, *Objectives of Federal Financial Reporting* to determine its applicability to federal financial reporting. The following is an overview of the FASAB mission and reporting objectives.

FASAB Mission

Staff presents the following synopsis of FASAB’s mission:

> The FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.
>
> Financial reports, which include financial statements prepared in conformity with generally accepted accounting principles, are essential for public

accountability and for an efficient and effective functioning of our democratic system of government. Thus, the Board plays a major role in fulfilling the government's responsibility to be publicly accountable. Federal financial reports should be useful in assessing (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences, whether positive or negative, of the allocation and various uses of federal resources.[4]

FASAB Reporting Objectives

Staff presents the following synopsis of the four SFFAC 1 reporting objectives:

Par. 110. Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding topics like those below:

Objective 1 - Budgetary Integrity

Par. 112. Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.

Objective 2 - Operating Performance

Par. 122. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.

Objective 3 – Stewardship

Par. 134. Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.

Objective 4 - Systems and Control

Par. 146. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that

[4] https://fasab.gov/about-fasab/mission-objectives/

- transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;

- assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.

Staff will use the mission and reporting objectives to determine how the IFRS S2 core content can be applied to federal financial reporting. Staff will coordinate with a working group to prepare an analysis for each core content element - governance, strategy, risk management, and metrics and targets, and the related disclosures (approximately 35 in total).

The following is an example of an analysis tool staff may use to determine IFRS S2 core content's applicability to federal financial reporting.

Example IFRS S2 --> to FASAB Guidance

IFRS S2 Core Content	FASAB Mission	Budget Integrity	Operating Performance	Stewardship	Systems and Controls	Applicable for FASAB yes or no
Governance disclosures						
Strategy disclosures						
Risk management disclosures						
Metrics and targets disclosures						

Staff recommends the **core content analysis** be applied first at the government-wide reporting level and then at the component entity reporting level.

The Board has traditionally developed its guidance first for component reporting entities and then the governementwide reporting entity. This approach supports the Board's process of identifying which reporting entities are engaged in a particular type of activity to develop definitions, scope, and recognition/measurement, for transactions such as public-private partnerships, leases, land, or insurance. The government-wide reporting requirements would normally follow.

For the climate-related financial reporting project, staff suggests developing the government-wide disclosures first, given that the reporting entities involved in climate-related activities are identified in climate-related investment bills such as, the Inflation

Reduction Act (IRA)[5] and the Bipartisan Infrastructure Law[6] (BIL) [also known as the Infrastructure Investment and Jobs Act (IIJA)].

The IRA and BIL/IIJA identify the climate-related investments the reporting entities are addressing, for example, the reduction of greenhouse gas (GHG) emissions, or mitigation and adaptation of physical assets to increase resilience to protect citizens, the environment, and reduce fiscal risk faced by the government.

Staff is providing the following overview of the IRA and BIL/IIJA to demonstrate the magnitude of federal climate-related investments, and why staff recommends beginning with the government-wide disclosures.

The **Inflation Reduction Act[7] (IRA)** passed on August 16, 2022. It will invest **$369 billion in energy security and climate change programs over 10 years**. This investment primarily addresses activities that will help the federal government to reduce carbon emissions by approximately 40% by 2030.

As of September 21, 2023[8], the IRA has funded 119 investments totaling $145,407,910,000 to multiple federal entities. Funding mechanisms may include grants, loans, cooperative agreement, rebates, contracts, easements, direct federal spending, financial assistance agreements, or tax credits. Following are examples of IRA investments and the responsible entities from the *Inflation Reduction Act Guidebook*:

PROGRAM	AGENCY	BUREAU	FUNDING AMOUNT	FUNDING MECHANISM

[5] Inflation Reduction Act Guidebook – energy.gov

[6] A Guidebook to the Bipartisan Infrastructure Law – build.gov

[7] Building a Clean Energy Economy. CleanEnergy.gov

[8] Inflation Reduction Act Guidebook Funding, list of funding programs (living guidebook)

Assistance to Underserved Forest Landowners - Emerging Private Markets for Climate Mitigation and Forest Resilience	Department of Agriculture	Forest Service	$150,000,000	Grants
Availability of High-Assay Low-Enriched Uranium (HALEU)	Department of Energy	Office of Nuclear Energy	$700,000,000	Grants, Contracts
Biofuel Infrastructure and Agriculture Product Market Expansion (Higher Blend Infrastructure Incentive Program)	Department of Agriculture	Rural Business-Cooperative Service	$500,000,000	Grants
Canal Improvement Projects	Department of the Interior	Bureau of Reclamation	$25,000,000	Direct Federal Spending
Clean Heavy-Duty Vehicles	Environmental Protection Agency	Office of Air and Radiation	$1,000,000,000	Competitive grants and rebates
Climate Change Technical Assistance for Territories	Department of the Interior	Office of Insular Affairs	$15,900,000	Grants, Interagency Agreements, and Direct Federal Spending
Climate Pollution Reduction Grants: Implementation Grants	Environmental Protection Agency	Office of Air and Radiation	$4,750,000,000	Grants, cooperative agreements
Climate Pollution Reduction Grants: Planning Grants	Environmental Protection Agency	Office of Air and Radiation	$250,000,000	Grants, cooperative agreements
Computing Capacity and Research for Weather, Oceans, and Climate	Department of Commerce	National Oceanic and Atmospheric Administration	$190,000,000	Direct federal spending (procurement, transaction agreements)
Green and Resilient Retrofit Program - Comprehensive Cohort	Department of Housing and Urban Development	Office of Housing, Multifamily Housing, Office of Recapitalization	$609,500,000	Competitive grants, loans
Greenhouse Gas Reduction Fund - National Clean Investment Fund	Environmental Protection Agency	Office of the Administrator	$14,000,000,000	Competitive grants
Greenhouse Gas Reduction Fund - Solar for All Program	Environmental Protection Agency	Office of the Administrator	$7,000,000,000	Competitive grants
Hazardous Fuels Reduction Projects in Wildland Urban Interface	Department of Agriculture	Forest Service	$1,800,000,000	Direct Federal Spending
High-Efficiency Electric Home Rebate Program	Department of Energy	Office of State and Community Energy Programs	$4,500,000,000	Grants
Investing in Coastal Communities and Climate Resilience	Department of Commerce	National Oceanic and Atmospheric Administration	$2,600,000,000	Direct federal spending, contracts, grants, cooperative agreements, or technical assistance

Staff recommends developing government-wide disclosures first to consolidate investment revenue received to show how much was collected to fund the IRA. For example, the IRA expects to collect $313 billion, through a 15% Corporate tax beginning in 2023, to help fund the energy security and climate change investments, as well as through other tax collection efforts. If the Board focused first on component reporting entities, this revenue might be missed since the revenue is received through the Internal Revenue Service, which is not one of the reporting entities providing a climate-related activity.

The **Bipartisan Infrastructure Law[9] (BIL)** [also known as the Infrastructure Investment and Jobs Act (IIJA)] passed on November 15, 2021. BIL/IIJA will invest approximately **$1.2 trillion for transportation and infrastructure spending—$650 billion for already existing projects and $550 billion in investments for new programs, over 5 years.** The BIL/IIJA primarily address physical asset and supply chain risks through mitigation, adaptation, and resilience. The following is an outline and examples of the BIL/IIJA 382 investments made through September 2023, and expected accomplishments:[10]

> **$110 billion (B) for roads, bridges, & major transformational projects.** In the United States, 1 in 5 miles of highways and major roads, and 45,000 bridges, are in poor condition. This funding focuses on climate change mitigation, resilience, equity, and safety for all users through the Surface Transportation Reauthorization Act and Surface Transportation Investment Act. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Bridge Investment Program	Roads, Bridges and Major Projects	Department of Transportation	Federal Highway Administration	$12,200,000,000	Competitive Grant	Yes

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY 4 year

RECIPIENTS

State, metropolitan planning organization (representing an area with a population of more than 200,000), local government, special purpose district or public authority with a transportation function, Federal land management agency, Tribal government.

PROGRAM DESCRIPTION The Bridge Investment Program will support projects to improve bridge and culvert condition, safety, efficiency, and reliability.

ELIGIBLE USES

Projects to replace, rehabilitate, preserve or protect one or more bridges on the National Bridge Inventory. Projects to replace or rehabilitate culverts to improve flood control and improve habitat connectivity for aquatic species.

> **$66B for passenger and freight rail:** U.S. passenger rail lags behind the rest of the world in reliability, speed, and coverage. This funding should eliminate the Amtrak maintenance backlog, modernize the Northeast Corridor, and bring world-class rail service to areas outside the northeast and mid-Atlantic. Reporting entity example:

[9] Investing in America: build.gov

[10] Information on the BIL was summarized and consolidated from the Fact Sheet: Bipartisan Infrastructure Deal, A guidebook to the Bipartisan Infrastructure Law, and Bipartisan Infrastructure Investment and Jobs Act Summary-A Road to Stronger Economic Growth.

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Capital Investment Grants	Public Transportation	Department of Transportation	Federal Transit Administration	$8,000,000,000	Competitive Grant	No

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY Year of Allocation to Project + 3

RECIPIENTS State and local government agencies, including transit agencies.

PROGRAM DESCRIPTION

This Federal Transit Administration discretionary grant program funds transit capital investments, including heavy rail, commuter rail, light rail, streetcars, and bus rapid transit. Federal transit law requires transit agencies seeking Capital Investment Grants funding to complete a series of steps over several years. The law also requires projects to be rated by the Federal Transit Administration at various points in the process according to statutory criteria evaluating project justification and local financial commitment.

ELIGIBLE USES

Grants may be made under this program to State and local governmental authorities to assist in financing (1) new fixed guideway capital projects or small start projects, including the acquisition of real property, the initial acquisition of rolling stock for the system, the acquisition of rights-of-way, and relocation, for fixed guideway corridor development for projects in the advanced stages of project development or engineering; and (2) core capacity improvement projects, including the acquisition of real property, the acquisition of rights-of-way, double tracking, signalization improvements, electrification, expanding system platforms, acquisition of rolling stock associated with corridor improvements increasing capacity, construction of infill stations, and such other capacity improvement projects to increase the capacity of an existing fixed guideway system corridor by at least 10 percent. Core capacity improvement projects do not include elements to improve general station facilities or parking, or acquisition of rolling stock alone.

$11B for <u>safety</u>: these funds will address highway and pedestrian safety programs, as well as pipeline safety and repair. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Safe Streets and Roads for All	Safety	Department of Transportation	Office of the Secretary	$5,000,000,000	Competitive Grant	Yes

$7.5B for <u>clean school buses & ferries</u>: these funds will address replacement of existing school buses with zero emission and clean school buses, with a priority on low income, rural and Tribal schools; provides $2.5 billion for the replacement of existing ferries with low carbon ferries and to assist states with operational costs for essential rural ferries. These investments will drive demand for American-made batteries and vehicles, creating jobs and supporting domestic manufacturing, while also removing old, dirty diesel buses and ferries from some of our most vulnerable communities.

$39.2B for <u>public transit</u>: these funds will address the nation's transit system repair backlog, which DOT estimates is more than 24,000 buses, 5,000 rail cars, 200 stations, and thousands of miles of track, signals, and power systems. It will invest in expanding the transit systems, support clean transit options, and increases accessibility for seniors and persons with disabilities.

$65B for <u>broadband</u>: More than 30 million Americans live in areas where there is no broadband infrastructure that provides minimally acceptable speeds—a particular problem in rural communities. Among 35 countries studied, the United States has the second highest broadband costs. These funds will be provided through grants to States for broadband deployment, by making broadband access more affordable for low-income families. This funding will also expand eligible private activity bond projects to include broadband infrastructure, and by supporting middle-mile deployment efforts. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Affordable Connectivity Program	Broadband	Federal Communications Commission	Federal Communications Commission	$14,200,000,000	Subsidies provided directly to internet service providers to apply to consumers' monthly internet bill	No

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY Available until expended

RECIPIENTS Internet Service Providers (Who Then Apply the Benefit to Consumers' Monthly Bills)

PROGRAM DESCRIPTION

The Affordable Connectivity Program is a Federal Communications Commission benefit program that helps ensure that low-income households can afford the broadband they need for work, school, healthcare and more. Per the legislation, the Federal Communications Commission may provide grants to outreach partners to educate consumers about the Affordable Connectivity Program.

ELIGIBLE USES

The Affordable Connectivity Program helps low income households afford home broadband service by providing up to a $30 monthly benefit on a household's monthly internet bill. For low-income households on Tribal lands the benefit is up to $75. Eligible households can also receive a one-time discount of up to $100 to purchase a laptop, desktop computer, or tablet from participating providers if the household contributes more than $10 and less than $50 toward the purchase price. The Affordable Connectivity Program is limited to one monthly service discount and one device discount per household.

$17B for <u>ports and waterways</u>: Decades of neglect and underinvestment in US infrastructure have left the movement of goods and supply chains struggling to keep up with a strong economic recovery after the pandemic. This funding will be used for waterway and coastal infrastructure, inland waterway improvements, port infrastructure, and land ports of entry. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Corps of Engineers Operation and Maintenance	Ports and Waterways	Department of Defense Army Corps of Engineers	Corps of Engineers - Civil Works	$4,000,000,000	Direct Federal	No

FUNDING AMOUNT NOTES Including $626 million For Damage Repairs And $40 million For Snowpack Monitoring

PERIOD OF AVAILIABLILTY Available until expended

RECIPIENTS The Army Corps would use this funding for operation and maintenance of its projects, including coastal and inland navigation projects.

PROGRAM DESCRIPTION

Funds inspection, operation, maintenance, and related activities for water resources projects operated and maintained by the Army Corps. These projects include navigation channels, navigation locks and dams, structures to reduce the risk of flood and storm damage (e.g., levees), and multi-purpose projects, as authorized in River and Harbor, Flood Control, and Water Resources Development Acts and other laws

ELIGIBLE USES Operation and maintenance of authorized Army Corps projects, including navigation channels and navigation locks and dams.

$25B for <u>airports</u>: Upgrades are necessary for the nation's airports to strengthen supply chains and prevent disruptions that have caused inflation and improve air traffic control infrastructure. This funding will address repair and maintenance backlogs, reduce congestion and emissions near ports and airports, and drive electrification and other low-carbon technologies. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Airport Infrastructure Grants	Airports and Federal Aviation Administration Facilities	Department of Transportation	Federal Aviation Administration	$15,000,000,000	Grant	Yes

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY 5 year

RECIPIENTS

Public agency, Private entity, State and Tribal Government owning a public use National Plan of Integrated Airport Systems airport. Airports eligible for Airport Infrastructure Grants include Primary airports, certain cargo airports, and most general aviation/commercial service airports that are not primary airports but in the National Plan of Integrated Airport Systems. This amounts to approximately 3,100 airports.

PROGRAM DESCRIPTION The funds are allocated in the 3 buckets: Primary Allocation, Non-Primary Allocation, Contract Towers

ELIGIBLE USES

Project eligibility tracks Passenger Facility Charge eligibility. With the exception of Debt Service. Bipartisan Infrastructure Law specifically States the funds cannot be used for Debt Service.

$55B for <u>water infrastructure</u>: Currently, up to 10 million American households and 400,000 schools and childcare centers lack safe drinking water. This funding will be used for lead service line replacement, to address Per- and Polyfluoroalkyl Substances (PFAS), supports water infrastructure in Tribal communities for the Indian Health Service Sanitation Facilities Construction program. In addition, this funding will complete all currently authorized Indian Water Rights Settlements. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Clean Water State Revolving Fund	Water	Environmental Protection Agency	State and Tribal Assistance Grants	$11,713,000,000	Loans and Grants	No

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY Available until expended

RECIPIENTS

States initially receive funding, then provide funds to Water Utilities and/or Municipal and Other Eligible Entities. Tribes and Territories are also eligible to receive a portion of State Revolving Fund funds.

PROGRAM DESCRIPTION

The Clean Water State Revolving Fund program is a Federal-State partnership that provides communities low-cost financing for a wide range of water quality infrastructure projects. Under the Bipartisan Infrastructure Law, 49 percent of Clean Water State Revolving Fund funds shall be eligible to be grants or 100 percent principal forgiveness loans. The Clean Water State Revolving Fund program provides capitalization grants to States, which will provide a long-term source of State financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

ELIGIBLE USES

Capitalization grants are available to each State and to Tribes and territories for the purpose of establishing a Clean Water State Revolving Fund. State Revolving Fund programs provide financial assistance to local communities and publicly owned treatment systems for construction of wastewater and stormwater treatment facilities and collection systems; nonpoint source pollution management; construction, repair, or replacement of decentralized wastewater treatment systems; construction of nature-based infrastructure solutions; and other uses associated with the management of wastewater and stormwater.

$65B for <u>clean energy transmission</u>: According to the Department of Energy, power outages cost the U.S. economy up to $70 billion annually. This funding will upgrade our power infrastructure, by building thousands of miles of new, resilient transmission lines to facilitate the expansion of renewables and clean energy, while lowering costs. It will provide grid reliability and resiliency; as well as critical minerals and supply chains for clean energy technology; key technologies like carbon capture, hydrogen, direct air capture, and energy efficiency. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Battery Manufacturing and Recycling Grants	Clean Energy and Power	Department of Energy	Energy Efficiency and Renewable Energy	$3,000,000,000	Grant	Yes

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY $600,000,000 appropriated annually for fiscal years 2022 through 2026 (to remain available until expended)

RECIPIENTS

(1) Institutions of higher education. (2) National Laboratories. (3) Nonprofit and for-profit private entities. (4) State and local governments. (5) Consortia of entities described in paragraphs (1) through (4)

PROGRAM DESCRIPTION

To provide grants to ensure that the United States has a viable domestic manufacturing and recycling capability to support a North American battery supply chain.

$50 billion for <u>resilience</u>: In 2020, the United States faced 22 extreme weather and climate-related disaster events with losses exceeding $1 billion each – a cumulative price tag of nearly $100 billion. This funding is an **investment to protect against droughts, heat, floods, and wildfires, in addition to a major investment in weatherization for the resilience of physical and natural systems** to make our communities safer and our infrastructure more resilient to the impacts of climate change and cyber-attacks. Reporting entity examples:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Building Resilient Infrastructure and Communities (Robert T Stafford Act Section 203(i))	Resilience	Department of Homeland Security	Federal Emergency Management Agency	$1,000,000,000	Grant	No

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY Available for the next 5 fiscal years in tranches of $200 million per fiscal year

RECIPIENTS States, local, Tribal, and territorial governments

PROGRAM DESCRIPTION

The Building Resilient Infrastructure and Communities program makes Federal funds available to States, U.S territories, Federally recognized Tribal governments, and local communities for hazard mitigation activities.

ELIGIBLE USES

Federal Emergency Management Agency will provide financial assistance to eligible Building Resilient Infrastructure and Communities applicants for the following activities: Capability and Capacity-Building – Activities, which enhance the knowledge, skills, expertise, etc., of the current workforce to expand or improve the administration of mitigation assistance. This includes activities in the following sub-categories: building codes activities, partnerships, project scoping, mitigation planning and planning-related activities, and other activities; Mitigation Projects – Cost-effective projects designed to increase resilience and public safety; reduce injuries and loss of life; and reduce damage and destruction to property, critical services, facilities, and infrastructure from natural hazards and the effects of climate change; and Management Costs – Financial assistance to reimburse the recipient and subrecipient for eligible and reasonable indirect costs, direct administrative costs, and other administrative expenses associated with a specific mitigation measure or project in an amount up to 15 percent of the total amount of the grant award, of which not more than 10 percent of the total award amount may be used by the recipient and 5 percent by the subrecipient for such costs generally.

Coastal Storm Risk Management, Hurricane, And Storm Damage Reduction Projects	Resilience	Department of Defense Army Corps of Engineers	Corps of Engineers - Civil Works	$2,550,000,000	Direct Federal	No

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY Available until expended

RECIPIENTS The Army Corps will use this funding to construct authorized Federal storm damage reduction projects.

PROGRAM DESCRIPTION

This program will fund the construction of projects that help to reduce the risk of damage in a coastal storm, targeting States that have been impacted by Federally declared disasters over the past six years, including $1 billion for multi-purpose projects or programs that include flood risk management benefits as a purpose ($200 million of which will be for shore protection projects).

ELIGIBLE USES Eligible Federal projects to reduce the risk of flood and storm damage along the Nation's coasts, including on the Great Lakes.

$7.5B for electric vehicle (EV) charging: these funds will build a nationwide network of 500,000 EV chargers to accelerate the adoption of EVs, reduce emissions, improve air quality, and create good-paying jobs across the country. The funding will have a particular focus on rural disadvantaged and hard-to-reach communities.

$1B for reconnecting communities: These funds will remove barriers to opportunity caused by legacy infrastructure through planning, design, demolition, and reconstruction of street grids, parks, or other infrastructure.

$21B for addressing legacy pollution: There are hundreds of thousands of former industrial and energy sites now idle in thousands of rural and urban communities around the country. These funds will clean up brownfield and superfund sites, reclaim abandoned mine lands, plug orphan oil and gas wells, to improve public health to remediate environmental harms and address the public health of communities. Reporting entity example:

PROGRAM NAME	CATEGORY	AGENCY NAME	BUREAU NAME	FUNDING AMOUNT	FUNDING MECHANISM	NEW?
Abandoned Mine Reclamation Fund	Environmental Remediation	Department of the Interior	Office of Surface Mining Reclamation and Enforcement	$11,293,000,000	Grant	No

FUNDING AMOUNT NOTES

PERIOD OF AVAILIABLILTY Funding available until expended. Available in fiscal year 2022 and distributed to States & Tribes on an equal annual basis over 15 years.

RECIPIENTS States and Tribes

PROGRAM DESCRIPTION Funding to administer a program to provide grants to eligible States and Tribes to clean up abandoned coal mine sites and related problems.

ELIGIBLE USES

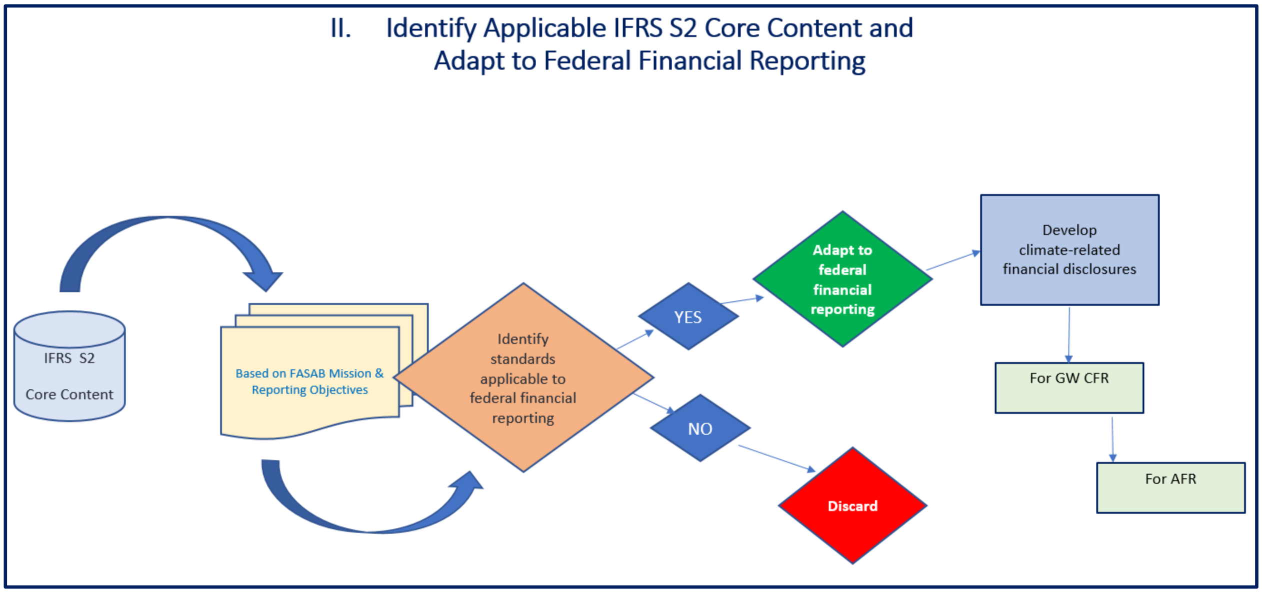
Cleaning up abandoned coal mine sites and related problems, as specified in the Bipartisan Infrastructure Law, that pose a threat to public health and safety; restoring land and water resources degraded by the effects of past coal mining; and addressing emergency projects. Those sites and related problems must be entered into the Office of Surface Mining and Reclamation's abandoned mine land inventory system and be associated with a coal mine that was abandoned prior to August 3, 1977. Unlike traditional Abandoned Mine Land funding that has been distributed in the past, and will continue to be distributed annually through at least fiscal year 2035, funding under the Bipartisan Infrastructure Law may be used to design, build, operate, maintain, and rehabilitate acid mine drainage facilities that are not in conjunction with a Priority 1 or Priority 2 site. However, States and Tribes may not place a portion of their Bipartisan Infrastructure Law funding into acid mine drainage set-aside accounts.

$8.3B for western water infrastructure: these funds will address such items as aging infrastructure, water storage, water recycling and reuse, water SMART, and drought contingency plans.

The above information highlights the magnitude of the government-wide climate-related investments through the IRA and BIL/IIJA. Many reporting entities are responsible for activities across these investments to 1) reduce GHG to meet the U.S. goal of net-zero emissions, or 2) for mitigation and adaptation to increase resilience of physical assets to protect citizens, the environment, supply chains, and to reduce the fiscal risk to the federal government.

Staff recommends that the Board begin with developing government-wide disclosures to present information that demonstrates accountability of the government's efficiency and effectiveness in managing these federal investments to address climate-related financial risk. For example, a disclosure could include totals for types of funding mechanisms, total subsidies or tax credits, and any revenues collected to offset the investments. A government-wide disclosure could report on financial performance achievements, such as reduced emergency funding needed due to a reduction in damage or power outages resulting from these investments. This information could demonstrate if the government as a whole is reducing fiscal risk from the financial effects of climate-related events.

To develop government-wide disclosures, staff will coordinate with a working group to provide an analysis to determine if each IFRS S2 requirement applies to government-wide reporting. For IFRS S2 requirements that apply, staff will provide recommendations for adapting each to government-wide reporting. A government-wide disclosure is intended to show the federal government's progress in successfully mitigating climate-related financial risks. The government-wide climate-related financial disclosure framework will then drive the component reporting entity disclosure framework.



In summary, staff recommends developing climate-related terms from IFRS S2 defined terms, as well as other climate-related terms. Then staff will develop an analysis and recommendations for adapting IFRS S2 to a government-wide climate-related financial disclosure framework. The government-wide framework will then be used to develop the climate-related financial disclosure framework for component reporting entities.

Question #1 for the Board:

> Do members agree with the recommended process for adapting IFRS S2 to the federal climate-related financial disclosure framework? **Yes, or no?**
>
> **If no,** please provide your reasoning and suggested update(s).

Please use the member comment form (Attachment 3) to provide your responses.

II. Proposed Project Plan - Climate-Related Financial Disclosure Framework

Board Meetings	Objectives
December 2023 – December 2024 [1 yr]	Identify & define FASAB climate-related terms
February 2025 - December 2026 [2 yrs]	Adapt IFRS S2 core content to federal climate-related financial disclosure framework for: 1. Government-wide reporting, then 2. Component entity reporting
February 2027 – February 2028 [1 yr]	• Develop draft proposed standards & basis for conclusions • Finalize proposed SFFAS exposure draft
April 2028 – April 2029 [1 yr]	• Ballot ED & release for comment period • Deliberate respondent comments & consider any proposed revisions • Finalize SFFAS • 90 day Sponsor review & possible 45 day concurrent congressional review
June – August 2029 [2 months]	Release final SFFAS [proposed effective date: reporting periods beginning after September 30, 2029 (FY 2030)]

Question #2 for the Board:

Do members agree with the proposed Climate-Related Financial Disclosure Framework project plan? **Yes, or no?**

If no, please provide your reasoning and suggested update(s).

Please use the member comment form (Attachment 3) to provide your responses.

FASAB
ATTACHMENT 2
TOPIC E - CLIMATE
OCTOBER 2023

IFRS Sustainability

June 2023

IFRS S2

IFRS® Sustainability Disclosure Standard

Climate-related Disclosures

International Sustainability Standards Board

IFRS S2

Climate-related Disclosures

IFRS S2 *Climate-related Disclosures* together with its accompanying documents is issued by the International Sustainability Standards Board (ISSB).

CONTENTS

IFRS S2 *Climate-related Disclosures* is set out in paragraphs 1–37 and Appendices A–C. All paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in other IFRS Sustainability Disclosure Standards. The Standard should be read in the context of its objective, the Basis for Conclusions and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

IFRS S2 *Climate-related Disclosures*

Objective

1 **The objective of IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its *climate-related risks and opportunities* that is useful to *primary users of general purpose financial reports* in making decisions relating to providing resources to the entity.**[1]

2 This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Scope

3 **This Standard applies to:**

(a) climate-related risks to which the entity is exposed, which are:

(i) *climate-related physical risks*; and

(ii) *climate-related transition risks*; and

(b) climate-related opportunities available to the entity.

4 **Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard.**

Core content

Governance

5 **The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.**

6 To achieve this objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

1 Throughout this Standard, the terms 'primary users' and 'users' are used interchangeably, with the same meaning.

(i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;

(iv) how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (see paragraph 29(g)).

(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

7 In preparing disclosures to fulfil the requirements in paragraph 6, an entity shall avoid unnecessary duplication in accordance with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) (see paragraph B42(b) of IFRS S1). For example, although an entity shall provide the information required by paragraph 6, if oversight of sustainability-related risks and opportunities is managed on an integrated basis, the entity would avoid duplication by providing integrated governance disclosures instead of separate disclosures for each sustainability-related risk and opportunity.

Strategy

8 **The objective of climate-related financial disclosures on strategy is to enable users of *general purpose financial reports* to understand an entity's strategy for managing climate-related risks and opportunities.**

9 Specifically, an entity shall disclose information to enable users of general purpose financial reports to understand:

(a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraphs 10–12);

(b) the current and anticipated effects of those climate-related risks and opportunities on the entity's *business model* and *value chain* (see paragraph 13);

(c) the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its *climate-related transition plan* (see paragraph 14);

(d) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning (see paragraphs 15–21); and

(e) the *climate resilience* of the entity's strategy and its business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities (see paragraph 22).

Climate-related risks and opportunities

10 An entity shall disclose information that enables users of general purpose financial reports to understand the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall:

(a) describe climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;

(b) explain, for each climate-related risk the entity has identified, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk;

(c) specify, for each climate-related risk and opportunity the entity has identified, over which time horizons—short, medium or long term—the effects of each climate-related risk and opportunity could reasonably be expected to occur; and

(d) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.

11 In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, the entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions.

12 In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, the entity shall refer to and consider the applicability of the industry-based *disclosure topics* defined in the *Industry-based Guidance on Implementing IFRS S2*.

Business model and value chain

13 An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain. Specifically, the entity shall disclose:

(a) a description of the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain; and

(b) a description of where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).

Strategy and decision-making

14 An entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose:

(a) information about how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making, including how the entity plans to achieve any climate-related targets it has set and any targets it is required to meet by law or regulation. Specifically, the entity shall disclose information about:

(i) current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon-, energy- or water-intensive operations; resource allocations resulting from demand or supply-chain changes; resource allocations arising from business development through capital expenditure or additional expenditure on research and development; and acquisitions or divestments);

(ii) current and anticipated direct mitigation and adaptation efforts (for example, through changes in production processes or equipment, relocation of facilities, workforce adjustments, and changes in product specifications);

(iii) current and anticipated indirect mitigation and adaptation efforts (for example, through working with customers and supply chains);

(iv) any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies; and

(v) how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets, described in accordance with paragraphs 33–36.

(b) information about how the entity is resourcing, and plans to resource, the activities disclosed in accordance with paragraph 14(a).

(c) quantitative and qualitative information about the progress of plans disclosed in previous reporting periods in accordance with paragraph 14(a).

Financial position, financial performance and cash flows

15 An entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

(b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).

16 Specifically, an entity shall disclose quantitative and qualitative information about:

(a) how climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;

(b) the climate-related risks and opportunities identified in paragraph 16(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities, taking into consideration:

(i) its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements), including plans the entity is not contractually committed to; and

(ii) its planned sources of funding to implement its strategy; and

(d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities (for example, increased revenue from products and services aligned with a lower-carbon economy; costs arising from physical damage to assets from climate events; and expenses associated with climate adaptation or mitigation).

17 In providing quantitative information, an entity may disclose a single amount or a range.

18 In preparing disclosures about the anticipated financial effects of a climate-related risk or opportunity, an entity shall:

(a) use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort; and

(b) use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

19 An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if the entity determines that:

(a) those effects are not separately identifiable; or

(b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

20 In addition, an entity need not provide quantitative information about the anticipated financial effects of a climate-related risk or opportunity if the entity does not have the skills, capabilities or resources to provide that quantitative information.

21 If an entity determines that it need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity applying the criteria set out in paragraphs 19–20, the entity shall:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that climate-related risk or opportunity; and

(c) provide quantitative information about the combined financial effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

Climate resilience

22 An entity shall disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The entity shall use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs B1–B18). In providing quantitative information, the entity may disclose a single amount or a range. Specifically, the entity shall disclose:

(a) the entity's assessment of its climate resilience as at the reporting date, which shall enable users of general purpose financial reports to understand:

   (i) the implications, if any, of the entity's assessment for its strategy and business model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis;

   (ii) the significant areas of uncertainty considered in the entity's assessment of its climate resilience;

   (iii) the entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term, including;

      (1) the availability of, and flexibility in, the entity's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities;

      (2) the entity's ability to redeploy, repurpose, upgrade or decommission existing assets; and

      (3) the effect of the entity's current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience; and

(b) how and when the climate-related scenario analysis was carried out, including:

(i) information about the inputs the entity used, including:

(1) which climate-related scenarios the entity used for the analysis and the sources of those scenarios;

(2) whether the analysis included a diverse range of climate-related scenarios;

(3) whether the climate-related scenarios used for the analysis are associated with climate-related transition risks or climate-related physical risks;

(4) whether the entity used, among its scenarios, a climate-related scenario aligned with the *latest international agreement on climate change*;

(5) why the entity decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties;

(6) the time horizons the entity used in the analysis; and

(7) what scope of operations the entity used in the analysis (for example, the operating locations and business units used in the analysis);

(ii) the key assumptions the entity made in the analysis, including assumptions about:

(1) climate-related policies in the jurisdictions in which the entity operates;

(2) macroeconomic trends;

(3) national- or regional-level variables (for example, local weather patterns, demographics, land use, infrastructure and availability of natural resources);

(4) energy usage and mix; and

(5) developments in technology; and

(iii) the reporting period in which the climate-related scenario analysis was carried out (see paragraph B18).

23 In preparing disclosures to meet the requirements in paragraphs 13–22, an entity shall refer to and consider the applicability of cross-industry metric categories, as described in paragraph 29, and industry-based metrics associated with disclosure topics defined in the *Industry-based Guidance on Implementing IFRS S2* as described in paragraph 32.

Risk management

24 **The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.**

25 To achieve this objective, an entity shall disclose information about:

(a) the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks, including information about:

(i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);

(ii) whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks;

(iii) how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);

(iv) whether and how the entity prioritises climate-related risks relative to other types of risk;

(v) how the entity monitors climate-related risks; and

(vi) whether and how the entity has changed the processes it uses compared with the previous reporting period;

(b) the processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities; and

(c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.

26 In preparing disclosures to fulfil the requirements in paragraph 25, an entity shall avoid unnecessary duplication in accordance with IFRS S1 (see paragraph B42(b) of IFRS S1). For example, although an entity shall provide the information required by paragraph 25, if oversight of sustainability-related risks and opportunities is managed on an integrated basis, the entity would avoid duplication by providing integrated risk management disclosures instead of separate disclosures for each sustainability-related risk and opportunity.

Metrics and targets

27 **The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.**

28 To achieve this objective, an entity shall disclose:

(a) information relevant to the cross-industry metric categories (see paragraphs 29–31);

(b) industry-based metrics that are associated with particular business models, activities or other common features that characterise participation in an industry (see paragraph 32); and

(c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets (see paragraphs 33–37).

Climate-related metrics

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(a) *greenhouse gases*—the entity shall:

(i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO_2 *equivalent* (see paragraphs B19–B22), classified as:

(1) *Scope 1 greenhouse gas emissions*;

(2) *Scope 2 greenhouse gas emissions*; and

(3) *Scope 3 greenhouse gas emissions*;

(ii) measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions (see paragraphs B23–B25);

(iii) disclose the approach it uses to measure its greenhouse gas emissions (see paragraphs B26–B29) including:

(1) the measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;

(2) the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and

(3) any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes;

(iv) for Scope 1 and Scope 2 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(1)–(2), disaggregate emissions between:

(1) the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, this group would comprise the parent and its consolidated subsidiaries); and

(2) other investees excluded from paragraph 29(a)(iv)(1) (for example, for an entity applying IFRS Accounting Standards, these investees would include associates, joint ventures and unconsolidated subsidiaries);

(v) for Scope 2 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(2), disclose its location-based Scope 2 greenhouse gas emissions, and provide information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions (see paragraphs B30–B31); and

(vi) for Scope 3 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(3), and with reference to paragraphs B32–B57, disclose:

(1) the categories included within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the *Scope 3 categories* described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011); and

(2) additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (*financed emissions*), if the entity's activities include asset management, commercial banking or insurance (see paragraphs B58–B63);

(b) climate-related transition risks—the amount and percentage of assets or business activities vulnerable to climate-related transition risks;

(c) climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks;

(d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;

(e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;

(f) *internal carbon prices*—the entity shall disclose:

(i) an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); and

(ii) the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions;

(g) remuneration—the entity shall disclose:

(i) a description of whether and how climate-related considerations are factored into executive remuneration (see also paragraph 6(a)(v)); and

(ii) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

30 In preparing disclosures to meet the requirements in paragraph 29(b)–(d), an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

31 In preparing disclosures to meet the requirements in paragraph 29(b)–(g), an entity shall refer to paragraphs B64–B65.

32 An entity shall disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry. In determining the industry-based metrics that the entity discloses, the entity shall refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the *Industry-based Guidance on Implementing IFRS S2*.

Climate-related targets

33 An entity shall disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. For each target, the entity shall disclose:

(a) the metric used to set the target (see paragraphs B66–B67);

(b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives);

(c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);

(d) the period over which the target applies;

(e) the base period from which progress is measured;

(f) any milestones and interim targets;

(g) if the target is quantitative, whether it is an absolute target or an intensity target; and

(h) how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target.

34 An entity shall disclose information about its approach to setting and reviewing each target, and how it monitors progress against each target, including:

(a) whether the target and the methodology for setting the target has been validated by a third party;

(b) the entity's processes for reviewing the target;

(c) the metrics used to monitor progress towards reaching the target; and

(d) any revisions to the target and an explanation for those revisions.

35 An entity shall disclose information about its performance against each climate-related target and an analysis of trends or changes in the entity's performance.

36 For each greenhouse gas emissions target disclosed in accordance with paragraphs 33–35, an entity shall disclose:

(a) which greenhouse gases are covered by the target.

(b) whether Scope 1, Scope 2 or Scope 3 greenhouse gas emissions are covered by the target.

(c) whether the target is a gross greenhouse gas emissions target or net greenhouse gas emissions target. If the entity discloses a net greenhouse gas emissions target, the entity is also required to separately disclose its associated gross greenhouse gas emissions target (see paragraphs B68–B69).

(d) whether the target was derived using a sectoral decarbonisation approach.

(e) the entity's planned use of *carbon credits* to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target. In explaining its planned use of carbon credits the entity shall disclose information including, and with reference to paragraphs B70–B71:

  (i) the extent to which, and how, achieving any net greenhouse gas emissions target relies on the use of carbon credits;

  (ii) which third-party scheme(s) will verify or certify the carbon credits;

  (iii) the type of carbon credit, including whether the underlying offset will be nature-based or based on technological carbon removals, and whether the underlying offset is achieved through carbon reduction or removal; and

(iv) any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the carbon offset).

37 In identifying and disclosing the metrics used to set and monitor progress towards reaching a target described in paragraphs 33–34, an entity shall refer to and consider the applicability of cross-industry metrics (see paragraph 29) and industry-based metrics (see paragraph 32), including those described in an applicable IFRS Sustainability Disclosure Standard, or metrics that otherwise satisfy the requirements in IFRS S1.

Appendix A
Defined terms

This appendix is an integral part of IFRS S2 and has the same authority as the other parts of the Standard.

carbon credit	An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of **greenhouse gases**. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.
climate resilience	The capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage **climate-related risks** and benefit from **climate-related opportunities**, including the ability to respond and adapt to **climate-related transition risks** and **climate-related physical risks**. An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.
climate-related physical risks	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.
climate-related risks and opportunities	Climate-related risks refers to the potential negative effects of climate change on an entity. These risks are categorised as **climate-related physical risks** and **climate-related transition risks**. Climate-related opportunities refers to the potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.
climate-related transition plan	An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its **greenhouse gas** emissions.

climate-related transition risks	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.
CO_2 equivalent	The universal unit of measurement to indicate the ***global warming potential*** of each **greenhouse gas**, expressed in terms of the **global warming potential** of one unit of carbon dioxide. This unit is used to evaluate releasing (or avoiding releasing) different **greenhouse gases** against a common basis.
financed emissions	The portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty. These emissions are part of Scope 3 Category 15 (investments) as defined in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).
global warming potential	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given **greenhouse gas** relative to one unit of CO_2.
greenhouse gases	The seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6).
indirect greenhouse gas emissions	Emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity.
internal carbon price	Price used by an entity to assess the financial implications of changes to investment, production and consumption patterns, and of potential technological progress and future emissions-abatement costs. An entity can use internal carbon prices for a range of business applications. Two types of internal carbon prices that an entity commonly uses are: (a) a shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used to understand the economic implications or trade-offs for such things as risk impacts, new investments, the net present value of projects, and the cost and benefit of various initiatives; and

(b) an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its **greenhouse gas** emissions (these internal taxes or fees are similar to intracompany transfer pricing).

latest international agreement on climate change	An agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change. The agreements set norms and targets for a reduction in **greenhouse gases**.
Scope 1 greenhouse gas emissions	Direct **greenhouse gas** emissions that occur from sources that are owned or controlled by an entity.
Scope 2 greenhouse gas emissions	***Indirect greenhouse gas emissions*** from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.
Scope 3 greenhouse gas emissions	**Indirect greenhouse gas emissions** (not included in **Scope 2 greenhouse gas emissions**) that occur in the **value chain** of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the **Scope 3 categories** in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).
Scope 3 categories	**Scope 3 greenhouse gas emissions** are categorised into these 15 categories—as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011): (1) purchased goods and services; (2) capital goods; (3) fuel- and energy-related activities not included in **Scope 1 greenhouse gas emissions** or **Scope 2 greenhouse gas emissions**; (4) upstream transportation and distribution; (5) waste generated in operations; (6) business travel; (7) employee commuting; (8) upstream leased assets; (9) downstream transportation and distribution; (10) processing of sold products;

(11) use of sold products;

(12) end-of-life treatment of sold products;

(13) downstream leased assets;

(14) franchises; and

(15) investments.

Terms defined in other Standards and used in this Standard with the same meaning

business model An entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term.

disclosure topic A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an IFRS Sustainability Disclosure Standard or a SASB Standard.

general purpose financial reports Reports that provide financial information about a reporting entity that is useful to **primary users** in making decisions relating to providing resources to the entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or selling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.

impracticable Applying a requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so.

primary users of general purpose financial reports (primary users) Existing and potential investors, lenders and other creditors.

value chain The full range of interactions, resources and relationships related to a reporting entity's **business model** and the external environment in which it operates.

A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Appendix B
Application guidance

This appendix is an integral part of IFRS S2 and has the same authority as the other parts of the Standard.

Climate resilience (paragraph 22)

B1 Paragraph 22 requires an entity to use climate-related scenario analysis to assess its climate resilience, using an approach that is commensurate with its circumstances.[2] The entity is required to use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. Paragraphs B2–B18 provide guidance on how an entity uses scenario analysis to assess the entity's climate resilience. Specifically:

(a) paragraphs B2–B7 set out the factors the entity shall consider when assessing its circumstances;

(b) paragraphs B8–B15 set out the factors the entity shall consider when determining an appropriate approach to climate-related scenario analysis; and

(c) paragraphs B16–B18 set out additional factors for the entity to consider when determining its approach to climate-related scenario analysis over time.

Assessing the circumstances

B2 An entity shall use an approach to climate-related scenario analysis that is commensurate with its circumstances as at the time the entity carries out its climate-related scenario analysis (see paragraph B3). To assess its circumstances the entity shall consider:

(a) the entity's exposure to climate-related risks and opportunities (see paragraphs B4–B5); and

(b) the skills, capabilities and resources available to the entity for the climate-related scenario analysis (see paragraphs B6–B7).

B3 An entity shall assess its circumstances each time it carries out its climate-related scenario analysis. For example, an entity that carries out its climate-related scenario analysis every three years to align with its strategic planning cycle (see paragraph B18) would be required to reconsider for this purpose its exposure to climate-related risks and opportunities and the skills, capabilities and resources available at that time.

2 This application guidance (paragraphs B1–B18) draws on the range of practice outlined in documents published by the Task Force on Climate-related Financial Disclosures (TCFD), including *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (2017) and *Guidance on Scenario Analysis for Non-Financial Companies* (2020).

Exposure to climate-related risks and opportunities

B4 An entity shall consider its exposure to climate-related risks and opportunities in its assessment of its circumstances and when determining the approach to use for its climate-related scenario analysis. This consideration provides essential context for understanding the potential benefits of using a particular approach to climate-related scenario analysis. For example, if an entity has a high degree of exposure to climate-related risk then a more quantitative or technically sophisticated approach to climate-related scenario analysis would be of greater benefit to the entity and users of general purpose financial reports. Users of general purpose financial reports would be less likely to benefit from quantitative or technically sophisticated climate-related scenario analysis if the entity is exposed to few or relatively less severe climate-related risks and opportunities. This means that—with all else being equal—the greater the entity's exposure to climate-related risks or opportunities, the more likely it is the entity would determine that a more technically sophisticated form of climate-related scenario analysis is required.

B5 This Standard requires an entity to identify the climate-related risks and opportunities to which it is exposed (see paragraph 10) and to disclose information about the process the entity uses to identify, assess, prioritise and monitor those risks and opportunities (see paragraph 25). The information the entity discloses in accordance with paragraphs 10 and 25 can inform the entity's consideration of its exposure to climate-related risks and opportunities.

Skills, capabilities and resources available

B6 An entity shall consider the available skills, capabilities and resources when determining an appropriate approach to use for its climate-related scenario analysis. These skills, capabilities and resources might include both internal and external skills, capabilities and resources. The entity's available skills, capabilities and resources provide context to inform its consideration of the potential cost and level of effort required by a particular approach to climate-related scenario analysis. For example, if an entity has only just begun to explore the use of climate-related scenario analysis to assess its climate resilience, it might be unable to use a quantitative or technically sophisticated approach to climate-related scenario analysis without undue cost or effort. For the avoidance of doubt, if resources are available to the entity then it will be able to invest in obtaining or developing the necessary skills and capabilities.

B7 Climate-related scenario analysis can be resource intensive and might—through an iterative learning process—be developed and refined over multiple planning cycles. As an entity repeats the climate-related scenario analysis, it is likely to develop skills and capabilities that will enable the entity to strengthen its approach to climate-related scenario analysis over time. For example, if an entity has not yet used climate-related scenario analysis or participates in an industry where climate-related scenario analysis is not commonly used, the entity might need more time to develop its skills and capabilities. In contrast, an entity in an industry where climate-related scenario analysis is established practice—such as extractives and mineral processing—would be expected to have strengthened its skills and capabilities through its experience.

Determining the appropriate approach

B8 An entity shall determine an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The determination of the approach shall be informed by the assessments of the entity's exposure to climate-related risks and opportunities (see paragraphs B4–B5) and its available skills, capabilities and resources (see paragraphs B6–B7). Making such a determination involves:

(a) selecting inputs to the climate-related scenario analysis (see paragraphs B11–B13); and

(b) making analytical choices about how to carry out the climate-related scenario analysis (see paragraphs B14–B15).

B9 Reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. It also includes quantitative or qualitative information, and information that is obtained from an external source or owned or developed internally.

B10 An entity will need to use judgement to determine the mix of inputs and analytical choices that will enable the entity to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The degree of judgement that is required depends on the availability of detailed information. As the time horizon increases and the availability of detailed information decreases, the degree of judgement required increases.

Selecting inputs

B11 When an entity selects the inputs to use in its climate-related scenario analysis, the entity shall consider all reasonable and supportable information—including scenarios, variables and other inputs—available to the entity at the reporting date without undue cost or effort. The inputs used in scenario analysis might include information that is qualitative or quantitative, and is obtained from an external source or developed internally. For example, publicly available climate-related scenarios—from authoritative sources—that describe future trends and a range of pathways to plausible outcomes are considered to be available to the entity without undue cost or effort.

B12 When selecting scenarios, variables and other inputs to use in climate-related scenario analysis, an entity might, for example, use one or more climate-related scenarios—including international and regional scenarios—that are publicly and freely available from authoritative sources. The entity shall have a reasonable and supportable basis for using a particular scenario or set of scenarios. For example, an entity with operations concentrated in a jurisdiction where emissions are regulated—or are likely to be regulated in the future—might determine that it is appropriate to carry out its analysis using a scenario consistent with an orderly transition to a lower-carbon economy or consistent with relevant jurisdictional commitments to the latest international agreement on climate change. Elsewhere, for example, an entity with heightened exposure to physical climate-related risks might determine that it is appropriate to carry out its analysis using a localised climate-related scenario that takes into account current policies.

B13 In considering whether the selected inputs are reasonable and supportable, an entity shall consider the objective of paragraph 22, which requires the entity to disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. This means that the inputs to the entity's climate-related scenario analysis shall be relevant to the entity's circumstances, for example, to the particular activities the entity undertakes and the geographical location of those activities.

Making analytical choices

B14 An entity's resilience assessment will be informed not only by the individual inputs to its climate-related scenario analysis, but also by the information it develops in combining those inputs to carry out the analysis. The entity shall prioritise the analytical choices (for example, whether to use qualitative analysis or quantitative modelling) that will enable it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. For example, if an entity is able—without undue cost or effort—to incorporate multiple carbon price pathways associated with a given outcome (for example, a 1.5 degree Celsius outcome), this analysis is likely to strengthen the entity's resilience assessment, assuming such an approach is warranted by the entity's risk exposure.

B15 Quantitative information will often enable an entity to carry out a more robust assessment of its climate resilience. However, qualitative information (including scenario narratives), either alone or combined with quantitative data, can also provide a reasonable and supportable basis for the entity's resilience assessment.

Additional considerations

B16 Climate-related scenario analysis is an evolving practice and, therefore, the approach that an entity uses is likely to change over time. As described in paragraphs B2–B7, the entity shall determine its approach to climate-related scenario analysis based on its particular circumstances, including the entity's exposure to climate-related risks and opportunities and the skills, capabilities and resources available for the scenario analysis. Those circumstances are also likely to change over time. Therefore, the entity's approach to climate-related scenario analysis need not be the same from one reporting period or strategic planning cycle to the next (see paragraph B18).

B17 An entity might use a simpler approach to climate-related scenario analysis, such as qualitative scenario narratives, if such an approach is appropriate to the entity's circumstances. For example, if an entity does not currently have the skills, capabilities or resources to carry out quantitative climate-related scenario analysis but has a high degree of exposure to climate-related risk, the entity might initially use a simpler approach to climate-related scenario analysis, but would build its capabilities through experience and, therefore, would apply a more advanced quantitative approach to climate-related scenario analysis over time. An entity with a high degree of exposure to climate-related risks and opportunities, and with access to the necessary skills, capabilities or resources, is required to apply a more advanced quantitative approach to climate-related scenario analysis.

B18 Although paragraph 22 requires an entity to disclose information about its climate resilience at each reporting date, the entity might carry out its climate-related scenario analysis in line with its strategic planning cycle, including a multi-year strategic planning cycle (for example, every three to five years). Therefore, in some reporting periods the entity's disclosures in accordance with paragraph 22(b) could remain unchanged from the previous reporting period if the entity does not conduct a scenario analysis annually. The entity shall—at a minimum—update its climate-related scenario analysis in line with its strategic planning cycle. However, an assessment of the entity's resilience is required to be carried out annually to reflect updated insight into the implications of climate uncertainty for the entity's business model and strategy. As such, an entity's disclosure in accordance with paragraph 22(a)—that is, the results of the entity's resilience assessment—shall be updated at each reporting period.

Greenhouse gases (paragraph 29(a))

Greenhouse gas emissions

Permission to use information from a reporting period that is different from the entity's reporting period, in specific circumstances

B19 An entity might have a different reporting period from some or all of the entities in its value chain. Such a difference would mean that greenhouse gas emissions information from these entities in its value chain for the entity's reporting period might not be readily available for the entity to use for its own disclosure. In such circumstances, the entity is permitted to measure its greenhouse gas emissions in accordance with paragraph 29(a)(i) using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period, on the condition that:

(a) the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its greenhouse gas emissions;

(b) the length of the reporting periods is the same; and

(c) the entity discloses the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reports.

Aggregation of greenhouse gases into CO_2 equivalent using global warming potential values

B20 Paragraph 29(a) requires an entity to disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO_2 equivalent. To meet this requirement, the entity shall aggregate the seven constituent greenhouse gases into CO_2 equivalent values.

B21 If an entity uses direct measurement to measure its greenhouse gas emissions, the entity is required to convert the seven constituent greenhouse gases into a CO_2 equivalent value using global warming potential values based on a 100-year time horizon, from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date.

B22 If an entity uses emission factors to estimate its greenhouse gas emissions, the entity shall use—as its basis for measuring its greenhouse gas emissions—the emission factors that best represent the entity's activity (see paragraph B29). If these emission factors have already converted the constituent gases into CO_2 equivalent values, the entity is not required to recalculate the emission factors using global warming potential values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date. However, if an entity uses emission factors that are not converted into CO_2 equivalent values, then the entity shall use the global warming potential values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date.

Greenhouse Gas Protocol

B23 Paragraph 29(a)(ii) requires an entity to disclose its greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). For the avoidance of doubt, an entity shall apply the requirements in the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) only to the extent that they do not conflict with the requirements in this Standard. For example, the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) does not require an entity to disclose its Scope 3 greenhouse gas emissions, however, the entity is required to disclose Scope 3 greenhouse gas emissions in accordance with paragraph 29(a).

B24 An entity is required to use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions. If the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions, the entity is permitted to use this method rather than using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) for as long as the jurisdictional or exchange requirement applies to the entity.

B25 In some circumstances, an entity might be subject to a requirement in the jurisdiction in which it operates to disclose its greenhouse gas emissions for a specific part of the entity or for some of its greenhouse gas emissions (for example, only for Scope 1 and Scope 2 greenhouse gas emissions). In such circumstances, the jurisdictional requirement does not exempt the entity from applying the requirements in this Standard to disclose the entity's Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for the entity as a whole.

Measurement approach, inputs and assumptions

B26 Paragraph 29(a)(iii) requires an entity to disclose the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions. As part of this requirement, the entity shall include information about:

(a) the measurement approach the entity uses in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (see paragraph B27);

(b) the applicable method if the entity is not using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) and the measurement approach the entity uses (see paragraph B28); and

(c) the emission factors the entity uses (see paragraph B29).

The measurement approach set out in the Greenhouse Gas Protocol

B27 The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) includes different measurement approaches that an entity might use when measuring its greenhouse gas emissions. In disclosing information in accordance with paragraph 29(a)(iii), the entity is required to disclose information about the measurement approach it uses. For example, when the entity discloses its greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is required to use the equity share or control approach. Specifically, the entity shall disclose:

(a) the approach it uses to determine its greenhouse gas emissions (for example, the equity share or control approach in the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)); and

(b) the reason, or reasons, for the entity's choice of measurement approach and how that approach relates to the disclosure objective in paragraph 27.

Other methods and measurement approaches

B28 When an entity discloses its greenhouse gas emissions measured in accordance with another method, applying paragraphs 29(a)(ii), B24–B25 or C4(a), the entity shall disclose:

(a) the applicable method and measurement approach the entity uses to determine its greenhouse gas emissions; and

(b) the reason, or reasons, for the entity's choice of method and measurement approach and how that approach relates to the disclosure objective in paragraph 27.

Emission factors

B29 As part of an entity's disclosure of the measurement approach, inputs and assumptions, the entity shall disclose information to enable users of general purpose financial reports to understand which emission factors the entity uses in its measurement of its greenhouse gas emissions. This Standard does not specify emission factors an entity is required to use in its measurement of its greenhouse gas emissions. Instead, this Standard requires an entity to use emission factors that best represent the entity's activity as its basis for measuring its greenhouse gas emissions.

Scope 2 greenhouse gas emissions

B30 Paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 greenhouse gas emissions and provide information about any contractual instruments the entity has entered into that could inform users' understanding of the entity's Scope 2 greenhouse gas emissions. For the avoidance of doubt, an entity is required to disclose its Scope 2 greenhouse gas emissions using a location-based approach and is required to provide information about contractual instruments only if such instruments exist and information about them informs users' understanding of an entity's Scope 2 greenhouse gas emissions.

B31 Contractual instruments are any type of contract between an entity and another party for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims (unbundled energy attribute claims relate to the sale and purchase of energy that is separate and distinct from the greenhouse gas attribute contractual instruments). Various types of contractual instruments are available in different markets and the entity might disclose information about its market-based Scope 2 greenhouse gas emissions as part of its disclosure.

Scope 3 greenhouse gas emissions

B32 In accordance with paragraph 29(a)(vi), an entity shall disclose information about its Scope 3 greenhouse gas emissions to enable users of general purpose financial reports to understand the source of these emissions. The entity shall consider its entire value chain (upstream and downstream) and shall consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). In accordance with paragraph 29(a)(vi), the entity shall disclose which of these categories are included in its Scope 3 greenhouse gas emissions disclosures.

B33 For the avoidance of doubt, regardless of the method an entity uses to measure its greenhouse gas emissions, the entity is required to disclose the categories included within its measure of Scope 3 greenhouse gas emissions as described in paragraph 29(a)(vi)(1).

B34 In accordance with paragraph B11 in IFRS S1, on the occurrence of a significant event or a significant change in circumstances, an entity shall reassess the scope of all affected climate-related risks and opportunities throughout its value chain, including reassessing which Scope 3 categories and entities throughout its value chain to include in the measurement of its Scope 3 greenhouse gas emissions. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to users of general purpose financial reports. For example, such significant events or significant changes in circumstances might include:

(a) a significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);

(b) a significant change in the entity's business model, activities or corporate structure (for example, a merger or acquisition that expands the entity's value chain); and

(c) a significant change in the entity's exposure to climate-related risks and opportunities (for example, a supplier in the entity's value chain is affected by the introduction of an emissions regulation that the entity had not anticipated).

B35 An entity is permitted, but not required, to reassess the scope of any climate-related risk or opportunity throughout its value chain more frequently than required by paragraph B11 in IFRS S1.

B36 In accordance with paragraph B6(b) in IFRS S1, to determine the scope of the value chain, which includes its breadth and composition, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

B37 An entity that participates in one or more financial activities associated with asset management, commercial banking and insurance shall disclose additional information about the financed emissions associated with those activities as part of the entity's disclosure of its Scope 3 greenhouse gas emissions (see paragraphs B58–B63).

Scope 3 measurement framework

B38 An entity's measurement of Scope 3 greenhouse gas emissions is likely to include the use of estimation rather than solely comprising direct measurement. In measuring Scope 3 greenhouse gas emissions an entity shall use a measurement approach, inputs and assumptions that result in a faithful representation of this measurement. The measurement framework described in paragraphs B40–B54 provides guidance for an entity to use in preparing its Scope 3 greenhouse gas emissions disclosures.

B39 An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions.

B40 An entity's measurement of Scope 3 greenhouse gas emissions relies upon a range of inputs. This Standard does not specify the inputs the entity is required to use to measure its Scope 3 greenhouse gas emissions, but does require the entity to prioritise inputs and assumptions using these identifying characteristics (which are listed in no particular order):

(a) data based on direct measurement (paragraphs B43–B45);

(b) data from specific activities within the entity's value chain (paragraphs B46–B49);

(c) timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its greenhouse gas emissions (paragraphs B50–B52); and

(d) data that has been verified (paragraphs B53–B54).

B41 An entity is required to apply the Scope 3 measurement framework to prioritise inputs and assumptions even when the entity is required by a jurisdictional authority or an exchange on which the entity is listed to use a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) for measuring its greenhouse gas emissions (see paragraphs B24–B25), or whether the entity uses the transition relief described in paragraph C4(a).

B42 An entity's prioritisation of the measurement approach, inputs and assumptions and the entity's considerations of associated trade-offs—based on the characteristics in paragraph B40—requires management to apply judgement. For example, an entity might need to consider the trade-offs between timely data and data that is more representative of the jurisdiction and technology used for the value chain activity and its emissions. More recent data might provide less detail about the specific activity, including the technology that was used in the value chain and the location of that activity. On the other hand, older data that is published infrequently might be considered more representative of the specific activity and its greenhouse gas emissions.

Data based on direct measurement

B43 Two methods are used to quantify Scope 3 greenhouse gas emissions: direct measurement and estimation. Of these two methods—and with all else being equal—an entity shall prioritise direct measurement.

B44 'Direct measurement' refers to the direct monitoring of greenhouse gas emissions and, in theory, provides the most accurate evidence. However, it is expected that Scope 3 greenhouse gas emissions data will include estimation due to the challenges associated with direct measurement of Scope 3 greenhouse gas emissions.

B45 Estimation of Scope 3 greenhouse gas emissions involves approximate calculations of data based on assumptions and appropriate inputs. An entity that measures its Scope 3 greenhouse gas emissions using estimation is likely to use two types of input:

(a) data that represents the entity's activity that results in greenhouse gas emissions (activity data). For example, the entity might use distance travelled as activity data to represent the transport of goods within its value chain.

(b) emission factors that convert activity data into greenhouse gas emissions. For example, the entity will convert the distance travelled (activity data) into greenhouse gas emissions data using emission factors.

Data from specific activities within the entity's value chain

B46 An entity's measurement of its Scope 3 greenhouse gas emissions will be based on data obtained directly from specific activities within the entity's value chain (primary data), data not obtained directly from activities within the entity's value chain (secondary data), or a combination of both.

B47 In measuring an entity's Scope 3 greenhouse gas emissions, primary data is more likely to be representative of the entity's value chain activity and its greenhouse gas emissions than secondary data. Therefore, the entity shall prioritise—with all else being equal—the use of primary data.

B48 Primary data for Scope 3 greenhouse gas emissions includes data provided by suppliers or other entities in the value chain related to specific activities in an entity's value chain. For example, primary data could be sourced from meter readings, utility bills or other methods that represent specific activities in the entity's value chain. Primary data could be collected internally (for example, through the entity's own records), or externally from suppliers and other value chain partners (for example, supplier-specific emission factors for purchased goods or services). Data from specific activities within an entity's value chain provides a more accurate representation of the entity's specific value chain activities and, therefore, will provide a better basis for measuring the entity's Scope 3 greenhouse gas emissions.

B49 Secondary data for Scope 3 greenhouse gas emissions is data that is not obtained directly from specific activities within an entity's value chain. Secondary data is often supplied by third-party data providers and includes industry-average data (for example, from published databases, government statistics, literature studies and industry associations). Secondary data includes data used to approximate the activity or emission factors. Additionally, secondary data includes primary data from a specific activity (proxy data) used to estimate greenhouse gas emissions for another activity. If an entity uses secondary data to measure its Scope 3 greenhouse gas emissions, it shall consider the extent to which the data faithfully represents the entity's activities.

Timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its greenhouse gas emissions

B50 If an entity uses secondary data, it shall prioritise the use of activity or emissions data that is based on, or represents, the technology used in the value chain activity the data is intended to represent. For example, an entity might obtain primary data from its activities (for example, the specific aircraft model, distance travelled and travel-class used by employees when travelling) and would then use secondary data that represents the greenhouse gas emissions arising from those activities to convert the primary data into an estimate of its greenhouse gas emissions from air travel.

B51 If an entity uses secondary data, it shall prioritise activity or emissions data that is based on, or represents, the jurisdiction in which the activity happened. For example, an entity shall prioritise emission factors that relate to the jurisdiction in which the entity operates or in which the activity has taken place.

B52 If an entity uses secondary data, it shall prioritise activity or emissions data that is timely and representative of the entity's value chain activity during the reporting period. In some jurisdictions, and for some technologies, secondary data is collected annually and, therefore, the data is likely to be representative of the entity's current practice. However, some secondary data sources rely on information collected in a reporting period that is different from the entity's own reporting period.

Verified data

B53 An entity shall prioritise Scope 3 greenhouse gas emissions data that is verified. Verification can provide users of general purpose financial reports with confidence that the information is complete, neutral and accurate.

B54 Verified data might include data that has been internally or externally verified. Verification can take place in several ways, including on-site checking, reviewing calculations, or cross-checking of data against other sources. However, in some cases an entity might be unable to verify its Scope 3 greenhouse gas emissions without undue cost or effort. For example, the entity might be prevented from obtaining a complete set of verified data due to the volume of data or because the data is obtained from entities in the value chain that are separated by many tiers from the reporting entity, that is, entities that the reporting entity does not interact with directly. In such cases, an entity might need to use unverified data.

Disclosure of inputs to Scope 3 greenhouse gas emissions

B55 An entity shall disclose information about the measurement approach, inputs and assumptions it uses to measure its Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(iii). This disclosure shall include information about the characteristics of the data inputs as described in paragraph B40. The purpose of this disclosure is to provide users of general purpose financial reports with information about how the entity has prioritised the highest quality data available, which faithfully represents the value chain activity and its Scope 3 greenhouse gas emissions. This disclosure also helps users of general purpose financial reports to understand why the measurement approach, inputs and assumptions the entity uses to estimate its Scope 3 greenhouse gas emissions are relevant.

B56 As part of the requirement in paragraph 29(a)(iii), and to reflect how an entity prioritises Scope 3 data in accordance with the measurement framework set out in paragraphs B40–B54, the entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs from specific activities within the entity's value chain; and

(b) the extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs that are verified.

B57 This Standard includes the presumption that Scope 3 greenhouse gas emissions can be estimated reliably using secondary data and industry averages. In those rare cases when an entity determines it is *impracticable* to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Financed emissions

B58 Entities participating in financial activities face risks and opportunities related to the greenhouse gas emissions associated with those activities. Counterparties, borrowers or investees with higher greenhouse gas emissions might be susceptible to risks associated with technological changes, shifts in supply and demand and policy change, which in turn can affect the financial institution that is providing financial services to these entities. These risks and opportunities can arise in the form of credit risk, market risk, reputational risk and other financial and operational risks. For example, credit risk might arise in relation to financing clients affected by increasingly stringent carbon taxes, fuel efficiency regulations or other policies; credit risk might also arise through technological shifts. Reputational risk might arise from financing fossil-fuel projects. Entities participating in financial activities, including commercial and investment banks, asset managers and insurance entities, are increasingly monitoring and managing such risks by measuring their financed emissions. This measurement serves as an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time.

B59 Paragraph 29 (a)(i)(3) requires an entity to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period, including upstream and downstream emissions. An entity that participates in one or more of the following financial activities is required to disclose additional and specific information about its Category 15 emissions or those emissions associated with its investments which is also known as 'financed emissions':

(a) asset management (see paragraph B61);

(b) commercial banking (see paragraph B62); and

(c) insurance (see paragraph B63).

B60 An entity shall apply the requirements for disclosing greenhouse gas emissions in accordance with paragraph 29(a) when disclosing information about its financed emissions.

Asset management

B61 An entity that participates in asset management activities shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

(b) for each of the disaggregated items in paragraph B61(a), the total amount of assets under management (AUM) that is included in the financed emissions disclosure, expressed in the presentation currency of the entity's financial statements.

(c) the percentage of the entity's total AUM included in the financed emissions calculation. If the percentage is less than 100%, the entity shall disclose information that explains the exclusions, including types of assets and associated amount of AUM.

(d) the methodology used to calculate the financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of investments.

Commercial banking

B62 An entity that participates in commercial banking activities shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:

(i) industry—the entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties, reflecting the latest version of the classification system available at the reporting date.

(ii) asset class—the disclosure shall include loans, project finance, bonds, equity investments and undrawn loan commitments. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports.

(b) its gross exposure to each industry by asset class, expressed in the presentation currency of the entity's financial statements. For:

(i) funded amounts—gross exposure shall be calculated as the funded carrying amounts (before subtracting the loss allowance, when applicable), whether prepared in accordance with IFRS Accounting Standards or other GAAP.

(ii) undrawn loan commitments—the entity shall disclose the full amount of the commitment separately from the drawn portion of loan commitments.

(c) the percentage of the entity's gross exposure included in the financed emissions calculation. The entity shall:

(i) if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%, disclose information that explains the exclusions, including the type of assets excluded.

(ii) for funded amounts, exclude from gross exposure all impacts of risk mitigants, if applicable.

(iii) disclose separately the percentage of its undrawn loan commitments included in the financed emissions calculation.

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

Insurance

B63 An entity that participates in financial activities associated with the insurance industry shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:

(i) industry—the entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties, reflecting the latest version of the classification system available at the reporting date.

(ii) asset class—the disclosure shall include loans, bonds and equity investments, as well as undrawn loan commitments. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports.

(b) the gross exposure for each industry by asset class, expressed in the presentation currency of the entity's financial statements. For:

(i) funded amounts—gross exposure shall be calculated as the funded carrying amounts (before subtracting the loss allowance, when applicable), whether prepared in accordance with IFRS Accounting Standards or other GAAP.

(ii) undrawn loan commitments—the entity shall disclose the full amount of the commitment separately from the drawn portion of loan commitments.

(c) the percentage of the entity's gross exposure included in the financed emissions calculation. The entity shall:

(i) if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%, disclose information that explains the exclusions, including type of assets excluded.

(ii) disclose separately the percentage of its undrawn loan commitments included in the financed emissions calculation.

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

Cross-industry metric categories (paragraph 29(b)–(g))

B64 In addition to information about an entity's greenhouse gas emissions, the entity is required to disclose information relevant to the cross-industry metric categories set out in paragraph 29(b)–(g).

B65 In preparing disclosures to fulfil the requirements in paragraph 29(b)–(g), an entity shall:

(a) consider the time horizons over which the effects of climate-related risks and opportunities could reasonably be expected to occur, described in accordance with paragraph 10.

(b) consider where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets) (see paragraph 13).

(c) consider the information disclosed in accordance with paragraph 16(a)–(b) in relation to the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period.

(d) consider whether industry-based metrics, as described in paragraph 32—including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy the requirements in IFRS S1—could be used to satisfy the requirements in whole or in part.

(e) consider the connections between the information disclosed to fulfil the requirements in paragraph 29(b)–(g) with the information disclosed in the related financial statements, in accordance with paragraph 21(b)(ii) of IFRS S1. These connections include consistency in the data and assumptions used—to the extent possible—and linkages between the amounts disclosed in accordance with paragraph 29(b)–(g) and the amounts recognised and disclosed in the financial statements. For example, an entity would consider whether the carrying amount of assets used is consistent with amounts included in the financial statements and would explain the connections between information in these disclosures and amounts in the financial statements.

Climate-related targets (paragraphs 33–37)

Characteristics of a climate-related target

B66 Paragraph 33 requires an entity to disclose the quantitative or qualitative climate-related targets it has set, and any it is required to meet by law or regulation, including any greenhouse gas emissions targets. In disclosing these climate-related targets, the entity is required to disclose information about the characteristics of these targets as described in paragraph 33(a)–(h). If the climate-related target is quantitative, an entity is required to describe whether the target is an absolute target or an intensity target. An absolute target is defined as a total amount of a measure or a change in the total amount of a measure, whereas an intensity target is defined as a ratio of a measure, or a change in the ratio of a measure, to a business metric.

B67 In identifying and disclosing the metric used to set a climate-related target and measure progress, an entity shall consider the cross-industry metrics and industry-based metrics. If the metric has been developed by the entity to measure progress towards a target, the entity shall disclose information about that metric in accordance with paragraph 50 of IFRS S1.

Greenhouse gas emissions targets

Gross and net greenhouse gas emissions targets

B68 If an entity has a greenhouse gas emissions target, the entity is required to specify whether the target is a gross greenhouse gas emissions target or a net greenhouse gas emissions target. Gross greenhouse gas emissions targets reflect the total changes in greenhouse gas emissions planned within the entity's value chain. Net greenhouse gas emissions targets are the entity's targeted gross greenhouse gas emissions minus any planned offsetting efforts (for example, the entity's planned use of carbon credits to offset its greenhouse gas emissions).

B69 Paragraph 36(c) specifies that if an entity has a net greenhouse gas emissions target it is required to also disclose a gross greenhouse gas emissions target. For the avoidance of doubt, if the entity discloses a net greenhouse gas emissions target, this target cannot obscure information about its gross greenhouse gas emissions targets.

Carbon credits

B70 Paragraph 36(e) requires an entity to describe its planned use of carbon credits —which are transferable or tradeable instruments—to offset emissions to achieve any net greenhouse gas emissions targets the entity has set, or any it is required to meet by law or regulation. Any information about the planned use of carbon credits shall clearly demonstrate the extent to which these carbon credits are relied on to achieve the net greenhouse gas emissions targets.

B71 In accordance with paragraph 36(e), an entity is required to disclose only its planned use of carbon credits. However, as part of this disclosure, the entity might also include information about carbon credits it has already purchased that the entity is planning to use to meet its net greenhouse gas emissions target, if the information enables users of general purpose financial reports to understand the entity's greenhouse gas emissions target.

Appendix C
Effective date and transition

This appendix is an integral part of IFRS S2 and has the same authority as the other parts of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* at the same time.

C2 For the purposes of applying paragraphs C3–C5, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Transition

C3 An entity is not required to provide the disclosures specified in this Standard for any period before the date of initial application. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies this Standard.

C4 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to use one or both of these reliefs:

(a) if, in the annual reporting period immediately preceding the date of initial application of this Standard, the entity used a method for measuring its greenhouse gas emissions other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method; and

(b) an entity is not required to disclose its Scope 3 greenhouse gas emissions (see paragraph 29(a)) which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions (see paragraph 29(a)(vi)(2) and paragraphs B58–B63).

C5 If an entity uses the relief in paragraph C4(a) or paragraph C4(b), the entity is permitted to continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods.

Approval by the ISSB of IFRS S2 *Climate-related Disclosures* issued in June 2023

IFRS S2 *Climate-related Disclosures* was approved for issue by all 14 members of the International Sustainability Standards Board.

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